

MASON COUNTY RURAL FIRE AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Mason County Rural Fire Authority	County Mason
Audit Date 12/31/04	Opinion Date 3/21/05	Date Accountant Report Submitted to State: 4/11/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Hendon & Slate, P.C.			
Street Address 711 WEST MAIN STREET, PO BOX 9		City Fremont	State MI
Accountant Signature <i>Jodi DeKunper, CPA</i>		ZIP 49412	Date 4/11/05

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MASON COUNTY RURAL FIRE AUTHORITY

List of Principal Individuals

	<u>Position</u>
James Whitaker	Chairperson
Ron Melchert	Vice Chairperson
Bruce Krieger	Secretary
Bruce Patterson	Treasurer
Bruce Borema	Trustee
Robert Bacon	Bookkeeper

HS & Companies



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Mason County Rural Fire Authority
c/o Bob Bacon
P.O. Box 152
Custer, MI 49405

Independent Auditor's Report

We have audited the accompanying financial statements of The Mason County Rural Fire Authority as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of Mason County Rural Fire Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mason County Rural Fire Authority as of December 31, 2004 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information is presented for purposes of additional analysis, and is not a required part of the financial statements of Mason County Rural Fire Authority. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Mason County Rural Fire Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

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Fremont
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Fax (231) 924-4088
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Whitehall
116 W. Colby, Suite B
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As discussed in Note A, the Authority adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
March 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
MASON COUNTY RURAL FIRE AUTHORITY
December 31, 2004

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements.

The Authority as a Whole

The Authority's combined net assets increased 7% from a year ago – increasing from 614.6 thousand to 658.8 thousand. This was the result of increased tax base. In a condensed format, the table below shows key financial information (in future years, when prior year information is available, a comparative analysis of government wide data will be presented):

	Governmental Activities
Current Assets	\$ 215,526
Noncurrent Assets	<u>1,282,321</u>
Total Assets	1,497,847
Current Liabilities	218,314
Long-Term Debt Outstanding	<u>620,740</u>
Total Liabilities	<u>839,054</u>
Net Assets	
Invested in Capital Assets	
- Net of Debt	473,894
Unrestricted	<u>184,899</u>
Total Net Assets	<u>\$ 658,793</u>

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations, decreased by \$50,893 for the governmental activities. This represents a decrease of approximately 21-1/2%. This decrease was mostly as a result of repaying \$180,347 of principal on the long-term debt. This was offset by the depreciation of the capital assets of \$97,869. The current level of unrestricted net assets for our governmental activities stands at \$184,899, or about 36% of expenditures. The Authority's net assets remain healthy.

Management's Discussion and Analysis (Continued)

	Governmental Activities
Revenues	
Taxes	\$ 430,870
Interest	2,729
Grants and Other	<u>128,656</u>
Total Revenues	562,255
Expenses	
Public Safety	332,526
Debt Service	42,782
Capital Outlay	45,143
Depreciation	<u>97,869</u>
Total Expenses	<u>518,320</u>
	43,935
Sale of Fixed Assets	<u>250</u>
Change in Net Assets	<u>\$ 44,185</u>

Governmental Activities

The Authority's total governmental revenues decreased by \$21,722, primarily due to the one-time grant in 2003 of \$75,000 for the purchase of a fire truck. This decrease was offset by increases in property taxes of \$17,511 and wage reimbursements of \$32,713.

Expenditures increased by \$20,412 during the year. This was primarily the result of wage increases of \$55,936 offset by a decrease in capital outlay of \$30,247.

Business-Type Activities

The Authority has no business-type activities.

The Authority's Fund

The Authority has only one fund, which is the General Fund and the Major Fund, as presented on pages 6 and 7.

The General Fund pays for all of the Authority's governmental services. The most significant expenditures paid by the Authority are wages (including payroll taxes) and Debt Service, accounting for approximately 56% of total expenditures.

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget to take into account events during the year. The most significant changes were to decrease the estimated wage reimbursement revenue by \$38,000 and miscellaneous revenue of \$26,500, amending the budget for actual receipts as of December 17, 2004. The amended budget did not take into consideration the receivables to be recorded by December 31, 2004. The Authority overall stayed below budget, resulting in total expenditures \$99,552 below budget. This is partly due to the Authority budgeting for capital outlay that may have been received by December 31st, but was not actually received.

Capital Asset and Debt Administration

At the end of 2004, the Authority had \$1.9 million invested in capital assets consisting of mostly vehicles. These vehicles are being depreciated over a 15 year estimated useful life.

Economic Factors and Next Year's Budgets and Rates

The Authority's budget for 2005 calls for a 10% increase on property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Authority needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Authority will grow less than by inflation, before considering new property additions.

The wage revenue budget for 2005 calls for a 72% increase in the reimbursements. This reflects the expected receivable not accounted for in the 2004 budget and appears reasonable. Total expenditures for 2005 are expected to have only a 3.7% increase over 2004 budgeted amounts, but a 20.5% increase over actual 2004 expenditures. This and the contingency of \$71,908 will allow the Authority for any unforeseen situations to occur resulting in significant expenditures.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the bookkeeper's office.

MASON COUNTY RURAL FIRE AUTHORITY

Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2004

	General Fund	Adjustments ^A	Statement Of Net Assets
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 155,108	\$ -	\$ 155,108
Wage Reimbursements Receivable	53,977	-	53,977
Prepaid Insurance	<u>6,441</u>	<u>-</u>	<u>6,441</u>
Total Current Assets	215,526	-	215,526
Capital Assets, Net of Accumulated Depreciation	<u>-</u>	<u>1,282,321</u>	<u>1,282,321</u>
Total Assets	<u>\$ 215,526</u>	<u>\$ 1,282,321</u>	<u>\$ 1,497,847</u>
LIABILITIES AND FUND EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 30,627	\$ -	\$ 30,627
Current Portion of Long-Term Debt	<u>-</u>	<u>187,687</u>	<u>187,687</u>
Total Current Liabilities	30,627	187,687	218,314
Note Payable	<u>-</u>	<u>620,740</u>	<u>620,740</u>
Total Liabilities	30,627	808,427	839,054
Fund Balances/Net Assets			
Fund Balance			
Unreserved	<u>184,899</u>	<u>(184,899)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 215,526</u>	<u>(215,526)</u>	<u>-</u>
Net Assets:			
Invested in Capital Assets			
Net of Related Debt		473,894	473,894
Unrestricted		<u>184,899</u>	<u>184,899</u>
Total Net Assets		<u>\$ 658,793</u>	<u>\$ 658,793</u>

^A Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

MASON COUNTY RURAL FIRE AUTHORITY

Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities For the Fiscal Year Ended December 31, 2004

	<u>General Fund</u>	<u>Adjustments^A</u>	<u>Statement of Activities</u>
Revenues			
Taxes	\$ 430,870	\$ -	\$ 430,870
Interest	2,729	-	2,729
Grants and Other	<u>128,656</u>	<u>-</u>	<u>128,656</u>
Total Revenues	562,255	-	562,255
Expenditures			
Public Safety	332,526	-	332,526
Debt Service	223,129	(180,347)	42,782
Capital Outlay	57,743	(12,600)	45,143
Depreciation	<u>-</u>	<u>97,869</u>	<u>97,869</u>
Total Expenditures	<u>613,398</u>	<u>(95,078)</u>	<u>518,320</u>
Excess Revenues Over (Under) Expenditures	(51,143)	95,078	43,935
Other Financing Sources (Uses)			
Sale of Fixed Assets	<u>250</u>	<u>-</u>	<u>250</u>
Total Other Financing Sources (Uses)	<u>250</u>	<u>-</u>	<u>250</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(50,893)	95,078	44,185
Fund Balance/Net Assets - Beginning of Year	<u>235,792</u>	<u>378,816</u>	<u>614,608</u>
Fund Balance/Net Assets - End of Year	<u><u>\$ 184,899</u></u>	<u><u>\$ 473,894</u></u>	<u><u>\$ 658,793</u></u>

^A Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

MASON COUNTY RURAL FIRE AUTHORITY

Notes to the Financial Statements
December 31, 2004

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mason County Rural Fire Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Mason County Rural Fire Authority.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of Mason County Rural Fire Authority’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of Mason County Rural Fire Authority’s activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including Notes to the Financial Statements).

A. Reporting Entity

The Mason County Rural Fire Authority is governed by an elected seven-member council (Board). The accompanying financial statements present the government.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants

who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenues that are both measurable and available are recorded when earned. All other revenue items are considered to be available only when cash is received by the Authority.

The Authority reports the following major governmental funds:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Notes to the Financial Statements (Continued)

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, however, there is only one fund reported.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	15 - 50 years
Vehicles and Trailers	10 - 15 years
Furniture and Equipment	5 - 20 years

Notes to the Financial Statements (Continued)

NOTE B RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, as well as employee injuries. The Authority maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE C STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2004, the Authority did incur material overexpenditures in the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Education & Training	\$ 6,000	\$ 9,326	\$ (3,326)
Repair & Maintenance - Buildings	13,100	18,554	(5,554)

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund were adopted at the line item level.

NOTE D RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and net change in fund balance of the Authority's governmental fund differs from net assets and statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets.

Notes to the Financial Statements (Continued)

Total Fund Balance - Modified Accrual Basis \$ 184,899

Amounts reported in the statement of net assets are different because:

Capital Assets are not financial resources, and are not reported in the funds 1,282,321

Long-term liabilities are not due and payable in the current period and are not reported in the funds (808,427)

Net Assets of General Fund - Full Accrual Basis \$ 658,793

Net Change in Fund Balances - Modified Accrual Basis \$ (50,893)

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital Outlay 12,600
Depreciation (97,869)

Repayment of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt) 180,347

Change in Net Assets of General Fund - Full Accrual Basis \$ 44,185

NOTE E CASH AND CASH EQUIVALENTS

Legal or Contractual Provisions for Deposits and Investments - The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize the Treasurer to invest surplus funds as follows:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).

Notes to the Financial Statements (Continued)

- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i The purchase of securities on a when-issued or delayed delivery basis.
 - ii The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The Authority funds are held at West Shore Bank, are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
NOW	\$ 6,311	\$ 14,043
Payroll Checking	89	1,607
Money Market - General	<u>148,708</u>	<u>143,081</u>
Total Deposits	<u>\$ 155,108</u>	<u>\$ 158,731</u>
FDIC Insured	\$ 6,400	\$ 15,650
Uninsured	-	-
Money Market Funds	155,108	143,081

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE F LEASES

Each entity holds a lease with the Fire Authority for the use of the fire barns and similar properties. The Authority pays no monies for these leases, but does provide insurance, maintenance and repairs, and utilities for each building. The term of the lease agreements shall continue so long as the Authority shall use the premises for the purpose of providing fire protection services.

Notes to the Financial Statements (Continued)

NOTE G CHANGES IN LONG-TERM DEBT

	Outstanding Principal <u>December 31, 2004</u>	Due Within <u>One Year</u>
<u>Fire Truck Loan #1</u>		
On May 17, 2002, the Authority entered into an agreement with West Shore Bank to consolidate two previous loans from West Shore Bank. This loan was in the amount of \$626,235 for the purchase of fire trucks and equipment. The note is due in annual payments of \$172,541.32. Interest is calculated at 3.95% per annum.	\$ 325,427	\$ 159,687
<u>Fire Truck Loan #2</u>		
During 2002, the Authority entered into an agreement with the United States of America (USDA) for a note in the amount of \$535,000 for the purchase of fire trucks and equipment. The note was due in annual principal payments of \$25,000 to \$48,000 through 2017 and interest payable semiannually at 4.625%. During 2002, only \$506,582 was received. The balance of \$28,418 was received in January, 2003.	<u>483,000</u>	<u>28,000</u>
Total Notes Payable	<u>\$ 808,427</u>	<u>\$ 187,687</u>

The annual requirements to amortize long-term debt outstanding as of December 31, 2004, including interest are as follows:

Year Ended <u>December 31</u>	<u>West Shore Bank Loan</u>		<u>USDA Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 159,687	\$ 12,854	\$ 28,000	\$ 22,339
2006	165,740	6,546	29,000	21,044
2007	-	-	31,000	19,702
2008	-	-	32,000	18,269
2009-2013	-	-	183,000	67,803
2014-2017	-	-	<u>180,000</u>	<u>21,275</u>
Total	<u>\$ 325,427</u>	<u>\$ 19,400</u>	<u>\$ 483,000</u>	<u>\$ 170,432</u>

Notes to the Financial Statements (Continued)

Changes in long-term debt for the year ended December 31, 2004:

	Fire Truck <u>Loan #1</u>	Fire Truck <u>Loan #2</u>	<u>Total</u>
Debt Outstanding 01/01/04	\$ 478,774	\$ 510,000	\$ 988,774
Debt Added During The Year	-	-	-
Debt Retired During The Year	<u>(153,347)</u>	<u>(27,000)</u>	<u>(180,347)</u>
Debt Outstanding 12/31/04	<u>\$ 325,427</u>	<u>\$ 483,000</u>	<u>\$ 808,427</u>

NOTE H CAPITAL ASSETS

A summary of changes in general fixed assets for governmental activities is as follows:

	Balance <u>01/01/04</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12/31/04</u>
Capital Assets:				
Equipment	\$ -	\$ 12,600	\$ -	\$ 12,600
Vehicles	<u>1,891,521</u>	<u>-</u>	<u>-</u>	<u>1,891,521</u>
Total	1,891,521	12,600	-	1,904,121
Accumulated Depreciation	<u>523,931</u>	<u>97,869</u>	<u>-</u>	<u>621,800</u>
Net Book Value	<u>\$ 1,367,590</u>	<u>\$ (85,269)</u>	<u>\$ -</u>	<u>\$ 1,282,321</u>
Depreciation Expense Public Safety		<u>\$ 97,869</u>		

MASON COUNTY RURAL FIRE AUTHORITY

Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended December 31, 2004

	Originally Adopted Budget	Final Amended Budget	Actual	Favorable (Unfavorable)
Revenues				
Property Taxes	\$ 445,080	\$ 430,970	\$ 430,870	\$ (100)
Wage Reimbursements	113,000	75,000	122,175	47,175
Interest	4,000	2,500	2,729	229
Grants & Other	<u>30,000</u>	<u>5,900</u>	<u>6,481</u>	<u>581</u>
Total Revenues	592,080	514,370	562,255	47,885
Expenditures				
Wages and Payroll Taxes	153,500	150,000	122,606	27,394
Payroll Reimbursements	25,000	23,600	23,567	33
Office Supplies	1,950	4,000	3,656	344
Operating Supplies	23,740	35,000	35,026	(26)
Service Charges	600	50	10	40
Mileage	300	300	256	44
Insurance	50,000	52,000	51,674	326
Repair and Maintenance				
- Buildings	19,350	13,000	18,554	(5,554)
Repair and Maintenance				
- Equipment	42,100	35,000	32,287	2,713
Professional Fees	5,500	4,100	4,011	89
Education and Training	13,550	6,000	9,326	(3,326)
Telephone	5,650	6,000	5,863	137
Utilities	30,525	28,000	20,009	7,991
Printing and Publishing	2,670	1,400	1,294	106
Miscellaneous	4,895	4,500	4,387	113
Capital Outlay	107,500	125,000	57,743	67,257
Debt Service	<u>225,000</u>	<u>225,000</u>	<u>223,129</u>	<u>1,871</u>
Total Expenditures	<u>711,830</u>	<u>712,950</u>	<u>613,398</u>	<u>99,552</u>
Excess Revenues Over (Under) Expenditures	(119,750)	(198,580)	(51,143)	147,437
Other Financing Sources (Uses)				
Sale of Fixed Assets	<u>-</u>	<u>250</u>	<u>250</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>250</u>	<u>250</u>	<u>-</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(119,750)	(198,330)	(50,893)	147,437
Fund Balance - Beginning of Year	<u>235,792</u>	<u>235,792</u>	<u>235,792</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 116,042</u>	<u>\$ 37,462</u>	<u>\$ 184,899</u>	<u>\$ 147,347</u>

h & s Companies



Hendon & Slate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



March 28, 2005

Board of Directors
Mason County Rural Fire Authority
P.O. Box 152
Custer, MI 49405

Dear Board Members:

We would like to thank you for the opportunity to conduct the audit for the Mason County Rural Fire Authority. It was a pleasure working with the bookkeeper throughout the engagement.

In connection with our audit of the financial statements of the Mason County Rural Fire Authority as of and for the year ending December 31, 2004, we reviewed your accounting procedures and internal control over financial reporting. We offer the following comments in connection with such.

GASB #34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments

Last year we issued a qualified opinion because the Authority had not completed a fixed asset inventory. We are very happy to report that the inventory was completed for the year ended December 31, 2004. Therefore, there is no qualified opinion issued this year. You will also note that the financial statements have been changed with the implementation of GASB #34. The changes allow for additional information which has never been available to the Authority before, including the net book value of the fixed assets and the depreciation of the assets over their estimated useful lives.

This report is intended solely for the information and use of the Mason County Rural Fire Authority's management and the board members. This restriction is not intended to limit distribution of this report, which is a matter of public record.

We appreciate the courtesy extended to us during our audit. We are available year round to assist in the implementation of any of the recommendations set forth in this letter or to answer any questions regarding the audit.

Respectfully submitted,

Jodi DeKuiper, CPA
Hendon & Slate, P.C.

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